

Written evidence submitted by Dr Ruth Little, Jess Lyon, Dr David Rose, Dr Judith Tsouvalis, Dr José Luis Fajardo Escoffié, Professor Charlotte Burns and Professor Susan Hartley, University of Sheffield (ELM0053)

This evidence is submitted by Dr Ruth Little (University of Sheffield), Jess Lyon (University of Sheffield), Dr David Rose (University of Reading), Dr Judith Tsouvalis (University of Sheffield), Dr José Luis Fajardo Escoffié (University of Sheffield), Professor Charlotte Burns (University of Sheffield) and Professor Susan Hartley (University of Sheffield). The authors are academics and are investigators on an Economic and Social Research Council (ESRC) grant analysing the future prospects for agri-environmental governance in the UK post-Brexit¹. The evidence is informed by the findings from this research grant and a project on identifying and engaging with 'harder to reach' farmers to enhance the inclusivity of E.L.M. led by the University of Sheffield (Little) in collaboration with Reading (Rose)². Supplementary evidence has been provided by Jennifer Dodsworth (University of Aberdeen) informed by the findings from the Contracts 2.0 project on innovative contracts for farmers and nature.

Executive Summary

At the time of leaving the European Union, 42% of farms in the UK did not make a profit over and above the Basic Payment Scheme (BPS). This indicates that there could be substantial implications for both livelihoods and landscapes if the new Environmental Land Management (E.L.M.) approach is poorly designed and the transition to the new payment scheme inadequately planned and implemented. Defra have stated that they aim to enrol 82,500 holdings into E.L.M. by the end of the transition; a substantial increase from the current c.20,000 holdings already participating in agri-environment schemes (AES).

As well as the points mentioned in our previous ELM evidence submission³ about the importance of advice and support availability for farmers and an effective co-design process with stakeholders, ELM will require effective funding and payment mechanisms to support and incentivise farmers who are thinking of partaking in ELM as well as mechanisms to support those who wish to leave the sector. To ensure this, finance mechanisms for ELM should:

- Accurately cover the costs and income lost for partaking in ELM as well as include incentive payments and financing for any changes in practice required and the expenses this will entail
- Ensure mechanisms for blended public and private finance are simple as well as transparent, which could be achieved through using land management plans.
- Ensure private finance availability is fair for farmers and covers the cost of monitoring. .
- Ensure the exit scheme is simple, clear and provides fair and sufficient support for farmers who wish to leave.

Q1. Why will income foregone not work? We have heard it isn't attractive enough, but can we be more precise. What payment methodology should we use instead?

In previous agri-environment schemes, the payment methodology of income forgone has not delivered enough compensation or incentive for farmers and has resulted in a lack of uptake in countryside stewardship schemes^{4,5}. Without improvements, income forgone in the

¹ See Project website: <https://www.sheffield.ac.uk/geography/research/projects/agri-environmental-governance-post-brexit/project-outputs>

² Contributors to this project were Jess Lyon, Dr Paul Hurley, Dr Jilly Hall and Veronica White

³ <https://committees.parliament.uk/writtenevidence/22105/pdf/>

⁴ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/925522/elm-tt-july20.pdf

context of ELM will similarly fail to fully compensate farmers or provide enough of an incentive to join the scheme. The risk this poses is that farmers focus even more on productivity to recoup the losses from reductions in BPS payments.

1.1 Limited financial compensation

Feedback from farmers and farming organisations to date has indicated that: (i) income forgone does not provide adequate compensation; (ii) previous scheme rates have not always covered the lost income in production value for sparing land for the environment; (iii) income forgone payment rates within AES are based on a “typical farm” and therefore do not consider regional variability or skill of the farmer; and (iv) there is inadequate compensation for upfront capital costs and establishment costs as well as appropriate costing for maintenance of activities. Compensation, as it is currently monetised, also insufficiently values the environmental public goods which are provided by farmers through schemes. It does not encompass the multifaceted benefits of improvements, for instance to biodiverse habitat qualities for soil health, cultural landscape values and benefits for species across ecologies⁶.

In addition to the compensation costs not being adequate, farmers suffer from the high costs of entry due to the complexity of the schemes and the amount of time and external support needed to help with applications and administration.⁷ These additional ‘transaction costs’ are particularly felt by smaller farmers who cannot benefit from economies of scale. There is also a high risk of further costs to the farmer occurring if they are unable to achieve the desired results and need to make multiple attempts, or if they receive any penalties⁸.

1.2 Smaller farmers and uplands at greater risk

Smaller farmers who cannot benefit from economies of scale can find this payment methodology tougher on them due to the initial transaction costs of entering a scheme, as well as suffering from higher contractor costs compared to larger farmers who are able to negotiate reduced rates.

Upland farmers rely heavily on BPS and some farmers feel they could not afford to take part in future AES as they do not have the cover of BPS to make up for any shortfalls or financial risks associated with AES schemes. A recent study analysing farm business survey data indicates that, in most cases, farms have a more stable income when they have increased agricultural diversity, take part in agri-environment schemes and use a lower intensity of inputs^{9,10}. However, a notable exception to this finding are upland livestock farms in less favourable areas. The study shows that agri-environment schemes reduce the stability of farm income for these farmers¹¹. It is suggested that this exception could be due to AES options being less available or less suited to these challenging environments¹². Our research also suggests that many harder to reach farmers could be those in, or on the periphery of, the uplands due to the geography of some of these areas, contributing to social isolation¹³. Current research shows

⁵ https://www.peakdistrict.gov.uk/data/assets/pdf_file/0035/95876/18.05.08-PDLMF-Final-Health-Harmony-Consultation-Response.pdf

⁶ This is based upon early evidence from Test and Trial results from the Northern Partnership AONBs, which included Natural Capital assessments and farm business plans.

⁷ Hurley, P., Hall, J., Lyon, J., Tsouvalis, J., Rose, D. C.; Little, R. (2020b): Inclusive design of post-Brexit Agri-Environmental policy: Identifying and engaging the 'Harder to Reach' Stakeholders. An Empirical Study. The Universities of Sheffield and Reading. Report. <https://doi.org/10.15131/shef.data.12506123.v2>

⁸ (Hurley *et al.*, 2020b)

⁹ <https://www.gov.uk/government/publications/environmental-land-management-tests-and-trials>

¹⁰ Caroline Harkness, Francisco J. Areal, Mikhail A. Semenov, Nimai Senapati, Ian F. Shield, Jacob Bishop. (2021) Stability of farm income: The role of agricultural diversity and agri-environment scheme payments. *Agricultural Systems*. 187 <https://doi.org/10.1016/j.agsy.2020.103009>.

¹¹ (Harkness *et al.*, 2021).

¹² <https://www.reading.ac.uk/news-and-events/releases/PR852892.aspx>

that ELMS options in their current form will not sufficiently 'plug the income gap' for upland farmers left by the removal of BPS.¹⁴ More needs to be done to ensure these farm businesses are not marginalised by ELM.

1.3 Smaller farmers and uplands at greater risk

For ELM to be an attractive option for farmers an income forgone payment methodology would need to be improved so that payment rates are more accurate to fulfil the basic function of compensation across a range of farm businesses. Payment rates need to at least be equivalent to the value of the marketable product being replaced and those on productive land may need a higher payment rate than currently offered to take high quality land out of production. Income forgone should also cover the capital costs associated with establishing scheme action on farm.

In addition to compensation, additional incentive payments and bonus payments for outcomes could be used to encourage farmers to switch from a productivity to an environmental land management mindset. To further incentivise scheme buy-in, a broader set of costs to farmers should be included within the compensatory approach. Other costs, like payments for advice, support and training should be factored into ELM costs, or they should be provided for free so that farmers are not put off from taking part in the scheme because of its complexity. The costs associated for farmers with the administrative burden of schemes should also be better factored into scheme compensation. Initial evidence from the Contracts2.0 project has emphasised that the current paperwork in action-based schemes is a significant barrier to uptake: "*I can do the paperwork for [results-based] rather than High Level Stewardship (HLS). [For HLS] you've got to be a brain surgeon to understand some of the questions even.*"¹⁵ Where farmers need to rely on intermediaries to undertake these tasks, the incentive for scheme participation is understandably reduced: "*You've to get a land agent to do it and your land agent charges you £500 and you get maybe £700 back. The difference is massive really.*"¹⁶

Facilitation to support farmers to work collaboratively at a landscape scale can strengthen interest in wildlife, support social learning about methods suited to local farming systems and create feelings of ownership of the environmental outcomes. For example, in Ireland 'bonus' payment initiatives within the Hen Harrier scheme have successfully recognised landscape scale improvements in bird numbers through proximity to successful nests.¹⁷ These bonuses have supplemented the individual payments to farmers: a results-based payment for habitat quality and a supporting actions payment for additional uptake of voluntary options.¹⁸ Bottom up approaches which nurture farmers own interests and reflect their expertise are more effective than a top down imposition of external goals.

Q2. Mechanisms for blended public/private finance in ELM.

The private sector has shown interest in financing environmental protection through natural capital payments and the carbon credit market. There are case studies of mechanisms for blended finance like those from Nestle which could be investigated further as a model for the

¹³ (Hurley *et al.*, 2020b)

¹⁴ Holt, A.R. and Morris, J. (2020) Plugging the income gap: Assessing environmental options for upland farms: A case study in Pendle Hill, Lancashire, Report to Pendle Hill Landscape Partnership, Natural Capital Solutions Ltd, December 2020

¹⁵ Dodsworth, J., Prager, K., 2020: Farmers' Experiences of RBAPS in Wensleydale: Changing Management Practices and Perceptions of Environmental Public Goods. The University of Aberdeen. Report. P.16.

¹⁶ Ibid, p.16

¹⁷ <https://www.gov.ie/en/press-release/87ba4-minister-hackett-welcomes-half-million-bonus-payment-to-hen-harrier-farmers/>

¹⁸ For annual reports, outlines of payment approaches see: <http://www.henharrierproject.ie/resources.html>

approach¹⁹. Whilst this could provide additional support for farmers, blending public and private finance can be difficult and mechanisms to support this process would need to consider the following:

2.1 Simple and transparent mechanism with a land management plan

The mechanism used to blend public and private finance needs to be simple to encourage farmers to take part whilst also being transparent regarding where the funds are coming from and what they are paying for. A land management plan created by farmers could be used to indicate farmers' interest and ability to deliver Natural Capital and this could be used to allocate funds from the public and private sector. Transparency is needed from both the public and private sector on what funding they are willing to provide for natural capital so that farmers can be made aware of what opportunities are available to them.

2.2 Facilitation and support

Facilitators of farm groups are imperative to this market to ensure the farmers are (i) designing well-considered land management plans which are cohesive across the managed landscape; (ii) well informed and able to access these scheme opportunities without falling into inappropriate contracts (iii) can 'enter' this market as quickly as possible to ensure there is enough supply to match the demand and that the best schemes are delivered first so the most appropriate natural capital assets are initially delivered into the landscape (i.e. protecting river corridors or connecting disconnected biodiversity areas).

2.3 Geographic Variation

It will be important to monitor any geographic implications of pursuing blended public/private finance options. For example, areas of the country that may have a greater concentration of companies wishing to take part in schemes may result in poorer provision in other parts of the country which may compromise the levelling up agenda.

2.4 Carbon Credit Market

The carbon credit market – whereby companies buy 'carbon credits' that pay for carbon restoration to offset their carbon footprint – could be used by the farming sector to pay for the protection and maintenance of trees and woodland, peatland restoration, and soil restoration and management²⁰. There have been examples of this market being used in the Woodland Carbon Guarantee which used reverse auctions to allow farmers to make small bids of 3-10 hectare to establish trees, which are then able to sequester carbon.

Whilst the carbon credit market has been a strong discussion point within the private industry it is still an early mechanism that is not yet fully established. The price for carbon credits is uncertain and could be vulnerable to significant fluctuations. This could leave farmers at risk due to a lack of understanding of the intricacies and long-term implications of selling carbon credits. Farmers could adopt a 'wait-and-see' approach to the carbon market as they wait to see the price of carbon rise to an attractive level once the market is established. As carbon sequestration is a long-term process there are concerns that payments will not significantly cover payments for the maintenance of the land and that tenant farmers could be unable to partake as they are not able to guarantee their long term position on the farm.

Q3. The exit schemes for farmers leaving the sector

¹⁹ See <https://landscapeenterprisenetworks.com/>

²⁰ A helpful summary of what habitat works best where can be found in this NE report: <http://publications.naturalengland.org.uk/publication/5419124441481216>

Whilst an exit scheme for farmers is an important tool for supporting farmers who wish to leave the sector,²¹ it needs to be managed carefully to ensure that the scheme is transparent, clear and also does not cause significant unintended consequences to rural communities. The success of the 'exit scheme' will in part be affected by the efficacy of a 'new entrants' scheme'. Whilst Defra have committed to supporting new entrants, it is important that this is underpinned by advisory support for new farmers to support good environmental practices. There are concerns from those within the agricultural industry that an exit scheme without a significant and effective 'new entrant' scheme could cause land to be bought by larger farmers and landowners, reducing or eliminating the demographic of the small family farm. This could have detrimental consequences for the environment and rural communities.

From our most recent research conducted with 24 interviewees on identifying and engaging 'Harder to Reach' stakeholders in the development and implementation of ELM, the following issues were raised regarding the proposed exit scheme. We have added quotes to illustrate the key challenges identified which can be summarised as: lack of detailed information on the scheme; the complexity of the scheme; uncertainty on where it leaves those exiting the industry (including implications for farm succession and potential inability to afford housing in their local communities); and the need for adequate scaffolded support to engage and assist the transition out of the industry.

- There is currently **a lack of information/clarity on the exit scheme** and E.L.M. in general, meaning farmers are unable to make informed decisions about whether or not to leave the industry: *"people don't know what they're giving up, because they don't know what E.L.M. looks like."* (Int 20)
- The **more complex** the exit scheme is, the **less likely farmers will be willing to take it up**: *"They could make this incredibly complicated if they wanted to, which means nobody'll bother doing it. Or they could make it reasonably straightforward, which will give it a much better chance of success."* (Int 6)
- A properly developed exit scheme could be great for farming, as it will open up space for new entrants. But there are also **pitfalls if it is not designed properly**: *"Tremendous opportunities to get some youngsters into those farms as well. But also some real hidden pitfalls. Because you could get the wrong people applying for it, because it's... effectively the profit on farms for four years. You're going to get share farmers, in particular, who are going to use it as an opportunity to restructure"* (Int 3)
- Farmers don't want to leave the industry because they don't want to move away from the places they love. **Lack of rural housing is an important issue**: *"...many farmers don't want to leave the communities that they've lived in all of their lives [...] And that is one of the reasons that has been given to us on numerous occasions for people not retiring from their businesses. Not that they want to keep farming. Quite the reverse. But they don't want to lose the house which is tied to their tenancy"* (Int 6)

²¹ Hurley, P., Hall, J., Lyon, J., Tsouvalis, J., Rose, D. C.; Little, R. (2020b): [Inclusive design of post-Brexit agrieEnvironmental policy: Identifying and engaging the 'Harder to Reach' Stakeholders. An Empirical Study](https://doi.org/10.15131/shef.data.12506123.v2). Full Report. <https://doi.org/10.15131/shef.data.12506123.v2>

- Farmers may **need support finding alternative accommodation**, but there are also concerns that the lump sum will not be enough for farmers to purchase new accommodation: *"...you can't buy a house with the amount of money you're going to get."* (Int 20)
- Need **clarity around whether succession** counts as an "exit" of the industry: *"So does the succession count as an exit? So if they hand onto their children, have they technically exited the business?"* (Int 6)
- **Skilled intermediaries** can provide the support that can **help farmers retire** with dignity, or give them a reality check that they should apply for the lump sum: *"But, you know, partly it may be the case that FCN, or other organisations, are needed to help them to retire with dignity before the whole thing becomes chaotic"* (Int 7)
- Farmers may also need **legal advice** to make sure they aren't being taken advantage of by their landlord: *"...so you want to make sure that you are doing the right thing, that you're not having your leg lifted by the landlord or anything like that, that it's all being done properly, and you need the right, professional land agent's advice, as well as legal advice on that."* (Int 6)
- Might be more successful if the scheme is **spread over multiple years**, instead of just one year: *"I mean I think it would be a shame if it stays at just one year, particularly if that year happens to be next year, given the last two years we've had. I think it would be much better if it was spread over, say, from 2022 to 2024"* (Int 6)